

MAY 7 2001

STATE OF ARIZONA  
DEPARTMENT OF INSURANCE

DEPT. OF INSURANCE  
BY CB

In the Matter of:

ILLINOIS NATIONAL INSURANCE COMPANY,  
NAIC #23817,

Respondent.

) Docket No. 01A-122-INS

) **CONSENT ORDER**

Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of the Illinois National Insurance Company ("INIC"). In the Report of the Examination of the Market Conduct Affairs of INIC, the Examiners allege that INIC has violated A.R.S. §§ 20-385, 20-442, 20-443, 20-461, 20-1113, 20-1631, 20-1632, 20-1632.01, and A.A.C. R20-6-801.

INIC wishes to resolve this matter without formal proceedings, waives its right to contest Findings of Fact without admitting them as true, and consents to the entry of the following Conclusions of Law and Order.

**FINDINGS OF FACT**

1. INIC is authorized to transact property and casualty insurance pursuant to a Certificate of Authority issued by the Director.

2. The Examiners were authorized by the Department to conduct a market conduct examination of INIC. The on-site examination covered the time period from July 1, 1995 through September 1, 1996, and was concluded January 10, 1997. The Examiners prepared the "Report of Examination of the Market Conduct Affairs of Illinois National Insurance Company" dated January 10, 1997.

3. The Examiners reviewed 225 personal automobile (PA) policies issued by the Company during the time frame of the examination and found as follows:

- a. INIC issued 22 PA policies using unfiled rates.
- b. INIC issued one PA policy with liability limits of \$25,000/\$50,000 instead of limits of \$15,000/\$30,000 as requested by the insured on the application.
- c. INIC issued two PA policies without comprehensive and collision coverages as requested by the applicant on the application.
- d. INIC misrepresented the terms of personal automobile policies by failing to honor its agents' premium quotations in the issuance of 40 PA policies.
- e. As a result of these violations, INIC overcharged 49 policyholders \$9,656.00.

4. The Examiners reviewed 149 personal automobile policies that were canceled or nonrenewed by the Company during the time frame of the examination and found as follows:

- a. INIC failed to include the refund of unearned premium in the cancellation of seven policies.
- b. INIC failed to state the specific reasons for cancellation of seven policies.
- c. INIC failed to provide the minimum seven-day grace period after the due date and after the date through which premium was paid on 87 policies.
- d. INIC included misleading information on two Reminder Notices by indicating a past-due amount that included the amount of a missed payment and also the amount of a payment that was not actually due until two weeks after the Reminder Notice and issued two Reinstatement Notes that indicated a date of reinstatement on policies that had not been canceled.
- e. INIC issued a Reinstatement Notice on two policies in which the policy effective dates were shown as the original renewal dates rather than the

1 reinstatement date.

2 f. INIC, on three policies: Failed to provide the seven-day grace period  
3 in the cancellation for nonpayment of premium, Charged a reinstatement fee while the  
4 policies were not subject to a reinstatement fee, Issued Reinstatement Notices in  
5 which the notices indicated policy effective dates the same as the original renewal  
6 dates rather than the reinstatement dates, Issued Reinstatement Notices in which the  
7 notices advised the insured that the premium payments were received after the  
8 cancellation date when no Notice of Cancellation was issued to the insureds, Lapsed  
9 coverage during the grace period.

10 5. The Examiners reviewed 64 automobile total-loss claims paid by the  
11 Company during the time frame of the examination and found that INIC failed to  
12 complete the investigation of five claims within 30 days after notification of the claims.

### 13 **CONCLUSIONS OF LAW**

14 1. INIC violated A.R.S. § 20-385(A) by determining personal automobile  
15 premiums other than according to its filed rates and rules.

16 2. INIC violated A.R.S. § 20-442 by including misleading information on its  
17 Reinstatement Notices indicating the insureds' premium payments were received after  
18 the cancellation dates when no Notices of Cancellation were issued to the insureds.

19 3. INIC violated A.R.S. § 20-443(1) by failing to issue new personal  
20 automobile policies in accordance with the terms, payments plans, and coverages as  
21 requested by the insureds on the applications for coverage.

22 4. INIC violated A.R.S. § 20-443(1) by misrepresenting the terms of its  
23 personal automobile policies in its failure to honor its agents' quotations but instead  
24 issued policies with premiums of more than ten dollars in excess of the premiums  
25 quoted by its agents.

5. INIC violated A.R.S. § 20-1632(A)(3) by failing to refund unearned premium to insureds whose policies were canceled for underwriting reasons, at the same time that they were sent notices of cancellation.

6. INIC violated A.R.S. § 20-1632(A)(1) by failing to state the specific reasons in all notices of cancellation for underwriting reasons.

7. INIC violated A.R.S. § 20-1632.01(A) by failing to provide the 7-day grace period after the due date in the cancellation of PA policies.

8. INIC violated A.A.C. R20-6-801(F) and A.R.S. § 20-461(A)(3) by failing to complete the investigation of a claim within thirty days of notification of the claim.

9. INIC violated A.R.S. § 20-1113(B)(5) by failing to correctly reflect the effective date in the reinstatement of policies after a lapse in coverage but instead continued to reflect the renewal date.

10. Grounds exist for the entry of the following Order, in accordance with A.R.S. §§ 20-220 and 20-456.

## ORDER

**IT IS ORDERED THAT:**

1. Illinois National Insurance Company shall cease and desist from the following:

a. Rating personal auto policies other than pursuant to its filed rates and rules.

b. Canceling personal auto policies for underwriting reasons and failing to return unearned premium to the insureds at the time the notices are issued.

c. Canceling personal auto policies for underwriting reasons without notifying the insureds of the specific reasons for cancellation.

d. Canceling or nonrenewing personal automobile policies without

1 providing a grace period of at least seven days for payment of premium.

2 e. Failing to complete the investigation of claims within 30 days after  
3 notification of the claims.

4 f. Issuing Reinstatement Notices that indicate a reinstatement date on  
5 policies that have not actually been canceled.

6 g. Issuing Reinstatement Notices that do not reflect the reinstatement  
7 date but continue to show the renewal date as the effective date, even though there  
8 was a lapse in coverage between the renewal date and the reinstatement date.

9 h. Failing to honor its agents' quotations for premium that are more than  
10 \$10 less than the correct premium because of mistakes made by its agents and failing  
11 to issue policies for the liability limits and coverages requested by the applicant.

12 2. Within 90 days of the filed date of this Order, INIC shall submit to the  
13 Arizona Department of Insurance, for approval, evidence that corrections have been  
14 implemented and communicated to the appropriate personnel, regarding the issues  
15 outlined in Item 1 of the Order section of this Consent Order. Evidence of corrective  
16 action and communication thereof includes, but is not limited to, memos, bulletins, E-  
17 mails, correspondence, procedures manuals, print screens, and training materials.

18 3. Within 90 days of the filed date of this Order, INIC shall refund the amount  
19 of \$9,656.00, plus interest at the rate of ten per cent per annum from the date of the  
20 overcharge to the date of the refund, to the 49 policyholders listed in Exhibit A of this  
21 Order.

22 4. Each payment made pursuant to Item 3 above shall include a letter to the  
23 insured in a form previously approved by the Director. A list of payments, giving the  
24 name and address of each party paid, the amount of the payment, the amount of  
25 interest paid, and the date of payment shall be submitted to the Department within 90

1 days of the filed date of this Order.

2 5. The Department shall be permitted, through authorized representatives, to  
3 verify that INIC has complied with all provisions of this Order.

4 6. INIC shall pay a civil penalty of \$18,000.00 to the Director for deposit in the  
5 State General Fund in accordance with A.R.S. § 20-220(B). The civil penalty shall be  
6 provided to the Market Conduct Examinations Division of the Department prior to the  
7 filing of this Order.

8 7. The Report of Examination of the Market Conduct Affairs of INIC as of  
9 January 10, 1997, including the letter submitted in response to the Report of  
10 Examination, shall be filed with the Department after the Director has filed this Order.

11 DATED at Phoenix, Arizona this 4<sup>th</sup> day of May, 2001.

12 

13 Charles R. Cohen  
14 Director of Insurance

**EXHIBIT A**

**Premium Overcharges**

<b>Policy Number</b>	<b>Policy Period</b>	<b>Premium Overcharge</b>
8149653	11/17/95-11/17/96	\$148.00
8192842	6/22/95-6/22/96	\$199.00
8194171	7/27/95-7/27/96	\$365.00
8194743	8/04/95-8/04/96	\$46.00
8196075	8/31/95-8/31/96	\$92.00
8196476	9/01/95-9/01/96	\$92.00
8198418	9/30/95-9/30/96	\$160.00
8199273	11/30/95-11/30/96	\$254.00
8331028	10/19/95-10/19/96	\$343.00
8331585	10/30/95-10/30/96	\$411.00
8331585	10/30/95-10/30/96	\$411.00
8331873	10/30/95-10/30/96	\$220.00
8332793	11/09/95-11/09/96	\$460.00
8351019	12/05/95-12/05/96	\$71.00
8351203	12/10/95-6/10/96	\$30.00
8352081	12/11/95-12/11/96	\$66.00
8352181	12/23/95-12/23/96	\$34.00
8352367	12/25/95-12/25/96	\$611.00
8352525	12/30/95-6/30/96	\$33.00
8352678	12/29/95-12/29-96	\$13.00
8353098	1/05/96-1/05/97	\$110.00
8353692	1/11/96-1/11/97	\$316.00
8354283	1/20/96-1/20/97	\$230.00
8354614	1/26/96-1/26/97	\$612.00
8355434	2/06/96-2/06/97	\$22.00
8355552	2/05/96-2/05/97	\$461.00
8355852	2/12/96-2/12/97	\$52.00
8356228	2/14/96-2/14/97	\$215.00
8356484	2/14/96-2/14/97	\$105.00
8356778	2/22/96-2/22/97	\$16.00
8357197	2/28/96-2/28/97	\$29.00
8357427	2/26/96-2/26/97	\$606.00
8357548	2/29/96-2/29/97	\$87.00
8357868	3/04/96-3/04/97	\$52.00
8400710	3/15/96-3/15/97	\$115.00
8402160	3/30/96-3/30/97	\$339.00
8402318	3/31/96-3/31/97	\$185.00
8402749	4/04/96-4/04/97	\$211.00
8403417	4/10/96-4/10/97	\$89.00

**EXHIBIT A**

**(Continued)**

<b>Policy Number</b>	<b>Policy Period</b>	<b>Premium Overcharge</b>
8403520	4/12/96-4/12/97	\$752.00
8403935	4/18/96-4/18/97	\$206.00
8404801	4/24/96-4/24/97	\$214.00
8405339	5/03/96-5/03/97	\$86.00
8406388	5/16/96-5/16/97	\$179.00
8406510	5/16/96-5/16/97	\$83.00
8407021	5/20/96-5/20/97	\$129.00
8408350	6/05/96-6/05/97	\$268.00
8410377	6/29/96-6/29/97	\$86.00
8409382	6/20/96-6/20/97	\$153.00
<b>TOTALS</b>		<b>\$9,656.00</b>

**CONSENT TO ORDER**

1. Illinois National Insurance Company ("INIC") has reviewed the foregoing Order.

2. INIC admits the jurisdiction of the Director of Insurance, State of Arizona, waives its right to contest the Findings of Fact without admitting them as true, and consents to the entry of the Conclusions of Law and Order.

3. INIC is aware of the right to a hearing, at which they may be represented by counsel, present evidence, and cross-examine witnesses. Illinois National Insurance Company irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.

4. INIC states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

5. INIC acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil or criminal, as may be appropriate now or in the future.

6. THOMAS M. FLAHERTY, who holds the office of VICE PRESIDENT of Illinois National Insurance Company, is authorized to enter into this Order for them and on their behalf.

**ILLINOIS NATIONAL INSURANCE COMPANY**

4-12-01

(Date)

By:

Thomas M. Flaherty

1 COPY of the foregoing mailed/delivered

2 This 7th day of May, 2001, to:

3  
4  
5  
6 Sarah Begley  
7 Deputy Director  
8 Mary Butterfield  
9 Assistant Director  
10 Consumer Affairs Division  
11 Paul J. Hogan  
12 Chief Market Conduct Examiner  
13 Market Conduct Examinations Section  
14 Deloris E. Williamson  
15 Assistant Director  
16 Rates & Regulations Division  
17 Steve Ferguson  
18 Assistant Director  
19 Financial Affairs Division  
20 Nancy Howse  
21 Chief Financial Examiner  
22 Alexandra Shafer  
23 Assistant Director  
24 Life & Health Division  
25 Terry L Cooper  
Fraud Unit Chief

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